

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)

)
Amendments to Part 65, Interstate Rate
of Return Prescription Procedures and
Methodologies, Subpart G, Rate Base)

CC Docket No. 96-22

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COMMENTS OF AMERITECH

Ameritech¹ submits these comments in response to the Commission's Notice of Proposed Rule Making in the above captioned matter.²

I. Account 4310.

Ameritech suggests that with the Commission's proposed blanket treatment of accrued liabilities in Account 4310 is inappropriate.

Under the Commission's current rules, unfunded accrued pension costs recorded in Account 4310, Other Long-Term Liabilities, are removed from the rate base, although other items recorded in Account 4310, such as accrued OPEB liabilities, are not. The Commission proposes to amend its Part 65 rules to accord all items recorded in Account 4310 the same rate base treatment currently accorded unfunded accrued pension costs. Specifically, the Commission would modify its rules to provide that the interstate portion of all items in Account 4310 be removed from the rate base.

¹ Ameritech means: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Bell, Inc.

² FCC 96-63 (released March 7, 1996) ("NPRM").

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Ameritech strongly suggests that the Commission's proposal is overbroad and that, instead, only those accrual items recorded in Account 4310 that can be considered to be included in carrier rates should be subtracted from the rate base. The Commission's stated rationale for its proposal itself explains why it should not be applied on a blanket basis to all items in Account 4310:

Our proposal to modify our rate base rules governing all Account 4310 liabilities is motivated by our continuing concern that zero cost sources of funds, those funds provided to a carrier without cost to the investors be removed from the rate base...Where carriers have accrued OPEB costs, but not have paid their OPEB liability, the recovered but unpaid costs are capital available to the carrier to no cost.³ (Emphasis added.)

It may be appropriate to subtract from the rate base (from the amount of investor-supplied capital) amounts of rate payer-supplied capital before calculating the cost of capital that should be paid by the rate payer in rates. However, such a subtraction is not appropriate where no funds have been provided by the rate payer.

This discussion is particularly relevant for price cap carriers. Ameritech does not contest the subtraction from the rate base of accrued pension costs because those costs are presumably included in rates, having been factored into price cap carriers' base line rates going into price caps. Accrued OPEB costs, however, is another matter. Obviously, the net of OPEB liability accruals over the current payment of OPEB expenses was not factored into rates pre-price caps since the accounting change from cash-basis to accrual required by SFAS-106 did not occur until after the inception of price cap regulation. Moreover, the Commission has specifically denied price cap carriers permission to make exogenous changes to their price cap

³ H. at ¶ 33.

indexes to allow for the recovery of the OPEB accruals.⁴ Thus, at least in the case of price cap carriers, for example, OPEB accruals are not “recovered” in rates and, therefore, do not constitute a “source of funds”; and to remove these amounts from the rate base on the theory that they are another source of funds that makes investor-supplied capital unnecessary would be clearly erroneous.⁵

While the case of OPEB accruals is the clearest example of the overbreadth of the Commission’s proposal, a similar examination should be made of other amounts included in Account 4310.

In this light, the Commission should not modify its rules to automatically deduct all items recorded in Account 4310 from the rate base.

II. Account 1410.

On the other hand, Ameritech supports the Commission’s proposal to include both prepaid pension costs and prepaid “OPEB” costs in the rate base.

Under the Commission’s current rules, amounts in Account 1410, Other Noncurrent Assets, are included in the rate base “only to the extent that they have been specifically approved by this Commission for inclusion.”⁶ Further, the Commission’s current rules provide that prepaid pension costs recorded in Account 1410 are included in the rate base, but prepaid OPEB costs recorded in that account

⁴ In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order, FCC 95-132 (“LEC Price Cap Order”) at ¶¶ 307, 309.

⁵ This issue would be moot, however, for those price cap carriers who have elected the no-sharing option if the Commission were to provide that the reporting requirements of Part 65 do not apply to those carriers.

⁶ NPRM at ¶ 30.

are not.⁷ The Commission has proposed to include both types of excess prepayments in the rate base. As the Commission noted:

Both types of excess prepayments, however, produce returns that reduce the pension (sic) amount companies must accrue in future periods.⁸

Because investors fund these excess prepayments -- in advance of their recovery in rates -- it is appropriate that the amounts be included in the rate base.

Respectfully submitted,



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⁷ Id.

⁸ Id.